

Housing for the wealthier middle classes rises above the insecure housing of a slum community in Lucknow, India. Photo: Tom Pietrasik/Oxfam

WORKING FOR THE FEW

Political capture and economic inequality

In November 2013, the World Economic Forum released its 'Outlook on the Global Agenda 2014',[1] in which it ranked widening income disparities as the second greatest worldwide risk in the coming 12 to 18 months. Based on those surveyed, inequality is 'impacting social stability within countries and threatening security on a global scale.' Oxfam shares its analysis, and wants to see the 2014 World Economic Forum make the commitments needed to counter the growing tide of inequality.

Some economic inequality is essential to drive growth and progress, rewarding those with talent, hard earned skills, and the ambition to innovate and take entrepreneurial risks. However, the extreme levels of wealth concentration occurring today threaten to exclude hundreds of millions of people from realizing the benefits of their talents and hard work.

Extreme economic inequality is damaging and worrying for many reasons: it is morally questionable; it can have negative impacts on economic growth and poverty reduction; and it can multiply social problems. It compounds other inequalities, such as those between women and men. In many countries, extreme economic inequality is worrying

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because of the pernicious impact that wealth concentrations can have on equal political representation. When wealth captures government policymaking, the rules bend to favor the rich, often to the detriment of everyone else. The consequences include the erosion of democratic governance, the pulling apart of social cohesion, and the vanishing of equal opportunities for all. Unless bold political solutions are instituted to curb the influence of wealth on politics, governments will work for the interests of the rich, while economic and political inequalities continue to rise. As US Supreme Court Justice Louis Brandeis famously said, 'We may have democracy, or we may have wealth concentrated in the hands of the few, but we cannot have both.'

Oxfam is concerned that, left unchecked, the effects are potentially immutable, and will lead to 'opportunity capture' – in which the lowest tax rates, the best education, and the best healthcare are claimed by the children of the rich. This creates dynamic and mutually reinforcing cycles of advantage that are transmitted across generations.

Given the scale of rising wealth concentrations, opportunity capture and unequal political representation are a serious and worrying trend. For instance:

- Almost half of the world's wealth is now owned by just one percent of the population.[2]
- The wealth of the one percent richest people in the world amounts to $110 trillion. That's 65 times the total wealth of the bottom half of the world's population.[3]
- The bottom half of the world's population owns the same as the richest 85 people in the world.[4]
- Seven out of ten people live in countries where economic inequality has increased in the last 30 years.[5]
- The richest one percent increased their share of income in 24 out of 26 countries for which we have data between 1980 and 2012.[6]
- In the US, the wealthiest one percent captured 95 percent of post-financial crisis growth since 2009, while the bottom 90 percent became poorer.[7]

This massive concentration of economic resources in the hands of fewer people presents a significant threat to inclusive political and economic systems. Instead of moving forward together, people are increasingly separated by economic and political power, inevitably heightening social tensions and increasing the risk of societal breakdown.

Oxfam's polling from across the world captures the belief of many that laws and regulations are now designed to benefit the rich. A survey in six countries (Spain, Brazil, India, South Africa, the UK and the US) showed that a majority of people believe that laws are skewed in favor of the rich – in Spain eight out of 10 people agreed with this statement. Another recent Oxfam poll of low-wage earners in the US reveals that 65 percent believe that Congress passes laws that predominantly benefit the wealthy.

The impact of political capture is striking. Rich and poor countries alike are affected. Financial deregulation, skewed tax systems and rules facilitating evasion, austerity economics, policies that disproportionately harm women, and captured oil and mineral revenues are all examples given in this paper. The short cases included are each intended to offer a sense of how political capture produces ill-gotten wealth, which perpetuates economic inequality.

This dangerous trend can be reversed. The good news is that there are clear examples of success, both historical and current. The US and Europe in the three decades after World War II reduced inequality while growing prosperous. Latin America has significantly reduced inequality in the last decade – through more progressive taxation,

public services, social protection and decent work. Central to this progress has been popular politics that represent the majority, instead of being captured by a tiny minority. This has benefited all, both rich and poor.

RECOMMENDATIONS

Those gathered at Davos for the World Economic Forum have the power to turn around the rapid increase in inequality. Oxfam is calling on them to pledge that they will:

- Not dodge taxes in their own countries or in countries where they invest and operate, by using tax havens;
- Not use their economic wealth to seek political favors that undermine the democratic will of their fellow citizens;
- Make public all the investments in companies and trusts for which they are the ultimate beneficial owners;
- Support progressive taxation on wealth and income;
- Challenge governments to use their tax revenue to provide universal healthcare, education and social protection for citizens;
- Demand a living wage in all the companies they own or control;
- Challenge other economic elites to join them in these pledges.

Oxfam has recommended policies in multiple contexts to strengthen the political representation of the poor and middle classes to achieve greater equity. These policies include:

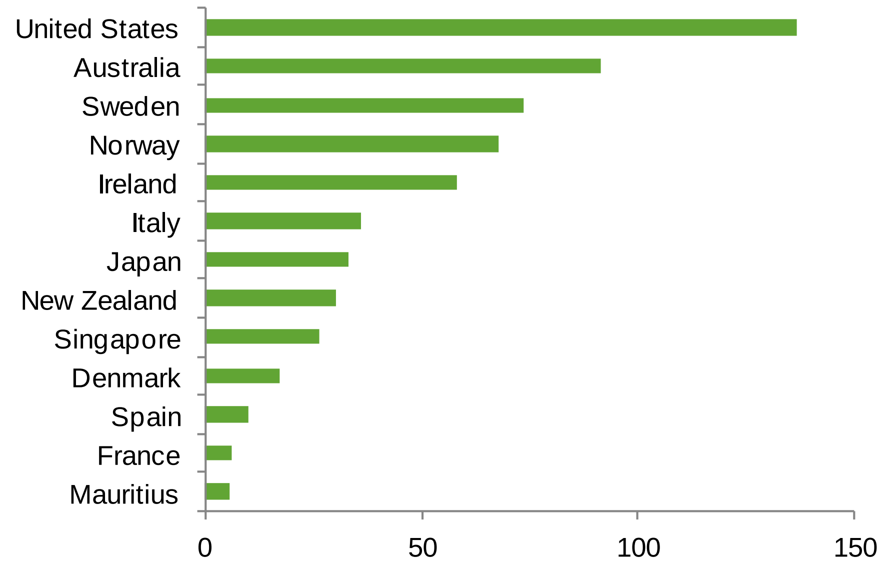
- A global goal to end extreme economic inequality in every country. This should be a major element of the post-2015 framework, including consistent monitoring in every country of the share of wealth going to the richest one percent.
- Stronger regulation of markets to promote sustainable and equitable growth; and
- Curbing the power of the rich to influence political processes and policies that best suit their interests.

The particular combination of policies required to reverse rising economic inequalities should be tailored to each national context. But developing and developed countries that have successfully reduced economic inequality provide some suggested starting points, notably:

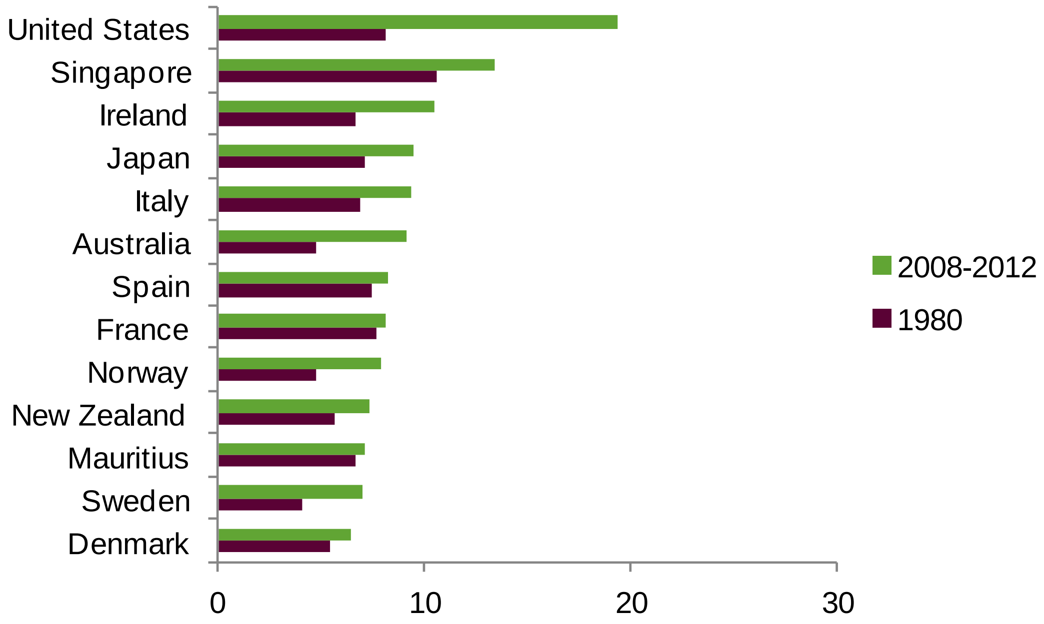
- Cracking down on financial secrecy and tax dodging;
- Redistributive transfers; and strengthening of social protection schemes;
- Investment in universal access to healthcare and education;
- Progressive taxation;
- Strengthening wage floors and worker rights;
- Removing the barriers to equal rights and opportunities for women.

Figure 1: The rich get richer

The percentage increase in share of income of the richest one percent



The share of national income going to the richest one percent



Source: F. Alvaredo, A. B. Atkinson, T. Piketty and E. Saez, (2013) 'The World Top Incomes Database', http://topincomes.g-mond.parisschoolofeconomics.eu/ Only includes countries with data in 1980 and later than 2008.

NOTES

All web links given here were accessed December 2013 unless otherwise stated

1 World Economic Forum (2013) 'Outlook on the Global Agenda 2014', Geneva: World Economic Forum, http://www3.weforum.org/docs/WEF_GAC_GlobalAgendaOutlook_2014.pdf

2 Credit Suisse (2013) 'Global Wealth Report 2013', Zurich: Credit Suisse. https://publications.credit-suisse.com/tasks/render/file/?fileID=BCDB1364-A105-0560-1332EC9100FF5C83 And Forbes' The World's Billionaires (accessed on December 16, 2013) http://www.forbes.com/billionaires/list/

3 Calculated based on information from Credit Suisse, *op. cit.* Total wealth amounts to $240.8 trillion. Share of wealth for the bottom half of the population is 0.71 percent. That for the richest one percent is 46 percent (amounting to $110 trillion).

4 Credit Suisse, *op. cit.*

5 The World Top Incomes Database, http://topincomes.g-mond.parisschoolofeconomics.eu/

6 *Ibid.*

7 E. Saez (2013) 'Striking it Richer: The Evolution of Top Incomes in the United States (updated with 2012 preliminary estimates)', Berkeley: University of California, Department of Economics. http://elsa.berkeley.edu/~saez/saez-UStopincomes-2012.pdf and The World Top Incomes Database. http://topincomes.g-mond.parisschoolofeconomics.eu/

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